FIRST SET OF DOCUMENT AND INFORMATION REQUESTS OF
THE DEPARTMENT OF COMMUNICATIONS AND ENERGY TO
BOSTON GAS COMPANY, COLONIAL GAS COMPANY AND ESSEX GAS COMPANY
D/B/A KEYSPAN ENERGY DELIVERY NEW ENGLAND

D.T.E. 04-62

Respondent: Elizabeth Danehy Arangio

Information Request DTE 1-2

Q. Refer to the Prefiled Testimony of Elizabeth Danehy Arangio, Page 7.
Identify the actions taken by KeySpan to restructure the gas-resource portfolios of the Companies.

A. Since the mergers, the Company has undertaken a number of steps to restructure and optimize the resource portfolio. In that regard, the consolidation of the three portfolios provided the companies with considerable negotiating leverage both in terms of commodity purchases and capacity-contract changes. The most significant opportunity to re-optimize the resource portfolio came in 1999 when a number of resource contracts between the companies and the Tennessee Gas Pipeline Company ("Tennessee") and Algonquin Gas Transmission Company ("Algonquin") reached their expiration dates.

The Company approached the contract negotiations with Tennessee and Algonquin with a focus on one key objective: to maintain city-gate deliverability while reducing overall costs. This focus, combined with the increased bargaining power and flexibility of the combined portfolio, enabled the Company to achieve a number of contract changes that would not have been possible without the consolidation of the portfolio. Accordingly, the agreements reached with Tennessee and Algonquin accomplish a restructuring of the portfolio that has resulted in significant cost savings and has enhanced the flexibility, diversity and reliability of the Company's gas-supply resources.

The changes achieved through negotiation efforts with each pipeline (Tennessee and Algonquin/TETCO) involved a number of interrelated portfolio decisions and contract changes. The Tennessee contract changes involved the following:

- Early Termination: The Company bought out the remaining year on 6 contracts as of November 1, 1999, which were no longer necessary to maintain citygate deliverability.
- Expiration or Modification: The Company made a number of contract changes to better utilize upstream underground-storage capacity and to move primary receipt points from zone 0 and 1 to zone 4. These contracts changes were made possible through the portfolio consolidation because the Company could better utilize its existing withdrawal rights from FS-MA underground storage. In addition, because of market changes, the Company is now able to purchase firm gas supplies at points

within, and downstream of, Zone 4. For both of these reasons, the Company no longer needed to retain all of its long-haul transportation capacity from zone 0 and 1. Therefore, contracts were allowed to expire or were modified consistent with these objectives, which significantly reduced the demand charges associated with upstream-capacity resources.

- Extension: The Company extended 8 contracts that are necessary to meet the Company's firm sendout requirements through 2003.[1]
- Negotiated Transportation Rate: The Company obtained a discounted rate on the transportation contract that is used to deliver Imperial supply from the Maritimes & Northeast Pipeline ("M&N Pipeline") to the Company's Tennessee city gates.

The Algonquin contracts were similarly restructured to maintain city-gate deliverability while reducing overall portfolio costs. The Algonquin/TETCO contract changes involved the following:

- Consolidation: The Company sought and received Algonquin's cooperation in consolidating a number of contracts to facilitate the Company's contract administration and nomination activities.
- Termination: The Company terminated 6 contracts that provided secondary receipt and delivery points. These contracts did not provide for primary deliveries, and therefore, the Company could not rely upon these supplies at all times.
- Modification and Abbreviation of Contract Terms: Many of the contracts held by the Company on the Algonquin pipeline originally terminated in 2012 or beyond. As part of the overall contract renegotiation, Algonquin agreed to shorten contract terms to end in 2006. The termination is accomplished through ratchet provisions that decrease the MDQ of the contracts to 0 MMBtus/day as of the termination date.
- Change in Service: The Company terminated long-haul capacity entitlements of 35,000 MMBtus on the AGT/TETCO pipelines, in exchange for LNG supplies of 35,000 MMBtus from Algonquin's (now KeySpan's) LNG facility in Providence, Rhode Island. The change in service significantly reduced demand charges for this needed service, while maintaining citygate deliverability.

Other aspects of the re-optimization effort that increased the flexibility, diversity and reliability of the Company's portfolio include:

- No-Notice Service: As a result of the contract restructuring, the Company is now entitled to 119,384 MMBtus/day of no-notice service on the Algonquin pipeline. This service allows the Company to make intra-day nominations at any time. Algonquin is obligated to reserve this capacity for the Company to call upon as needed. This service provides a high degree of flexibility to the Company in meeting

[1] The Company has since extended these Tennessee contracts for a **five**-year term beginning on November 1, 2003 through October 31, **2008**.

system needs. Typically, therefore, the Company schedules this resource last so as to maintain that flexibility.

- Hourly Service: The Company holds 191,756 MMBtus/day of capacity on the AGT pipeline wherein the Company is allowed to take up to 6 percent of its daily allotment in any given hour. All other capacity held by the Company must be taken on a uniform hourly take of 1/24th per hour (or 4.2 percent per hour). This service provides the Company with the added flexibility to meet hourly demands with pipeline supplies, rather than having to resort to on-system peaking resources.[2]

- FT-A Capacity: The Company has contract entitlements to 240,078 MMBtus/day of Tennessee FT-A capacity that originates either in the access area (zones 0 and 1) or the market area (zones 4 and 5) and delivers to zone 6. This FT-A capacity provides the Company with substantial operating flexibility because the Company is able to use alternate receipt and delivery points and capacity segmentation to deliver supplies to various points on the KeySpan system. For example, using capacity segmentation, the Company can deliver the total MDQ of the contract simultaneously to multiple points on the Company's distribution system interconnecting with a single pipeline (i.e., Tennessee). Thus, using segmentation, a contract MDQ of 10,000 MMBtu/day can be increased to 20,000 MMBtu/day by delivering 10,000 MMBtus/day to two separate Tennessee interconnections with the Company's distribution system.

- Northeast Transportation-New England Capacity Rights ("NET-NE"): This capacity provides the Company with the flexibility to maintain redundant delivery points on the Tennessee pipeline. Using this capacity, the Company can deliver gas to its citygates on the Tennessee pipeline or to Tennessee's interconnect with the Algonquin pipeline in Mendon, Massachusetts for delivery to the Company's citygates on the Algonquin pipeline. This provides the Company with substantial flexibility in moving supplies between the Tennessee and Algonquin pipelines to serve customers within the Company's service territory.

- Underground Storage Withdrawal Rights: Prior to the restructuring, the Company had the right to withdraw 95,415 MMBtus/day from its Tennessee FS-MA underground storage, of which 54,363 MMBtus/day could be transported from the storage fields (zone 4) to the Company's citygates (zone 6) on a primary delivery basis. As a result of its negotiations with Tennessee, the Company transferred its primary receipt-point rights for transport between zone 0 and zone 1, to zone 4, while maintaining primary delivery rights to zone 6. This increased the Company's primary receipt-point capacity from the Tennessee FS-MA underground storage field by 39,632 MMBtus/day to a total of 93,995 MMBtus/day, allowing for a higher utilization of underground storage during the peak period. This also enabled the Company to terminate other underground-storage obligations.

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2 Once the Company has reached the maximum hourly flow for pipeline supplies, the Company must begin using on-system resources to meet any hourly demands in excess of the hourly pipeline allotment, even if the Company can deliver ample pipeline supplies to meet the system's needs. The Company is also subject to maximum hourly flow restrictions in relation to on-system resources.

- Peaking Resources: The Company has primary entitlements to 35,000 MMBtus/day (or 1,100 BBtu per season) of LNG and transportation capacity from the Algonquin facility in Providence, Rhode Island to the Company's citygate. This resource provides substantial flexibility and reliability to the portfolio because supplies can be delivered to the Company's city gate to meet system needs, but also, these supplies are available to support Algonquin system pressures on the constrained G-lateral to allow the delivery of additional supply to the Cape. In addition, when the Company is not using this transportation capacity to transport LNG volumes from the Providence facility, the Company can use the capacity rights to transport volumes on a secondary basis from any point on the Algonquin pipeline system.

- Displacement: The former Boston Gas, Colonial Gas and Essex Gas systems are connected to the Tennessee pipeline and the former Boston Gas and Colonial Gas systems are connected to the Algonquin pipeline. The Boston Gas and Colonial Gas systems are interconnected in Littleton, Massachusetts. The former Boston system is also connected to the Distrigas of Massachusetts Corporation ("DOMAC") facility. Because of these interconnections, there are significant cost-saving opportunities available across the KeySpan system through the use of displacement. For example, the former Colonial Gas system contracted with DOMAC for the delivery of LNG from the DOMAC facility in Everett. These supplies would be trucked to the Colonial system or transported via backhaul on the AGT or TGP system. In either situation, Colonial Gas would incur costs to transport those volumes to its citygate. Now, these volumes can enter the Company's distribution system in Everett and, through displacement, the Company uses available pipeline supplies to deliver volumes to points on the KeySpan system that would previously have taken delivery of the DOMAC supplies. Or, LNG may be vaporized in one facility within an area of the distribution system, enabling another area of the distribution system to take delivery of additional pipeline volumes. Because the Company is essentially using its own system to transport the volumes, transportation costs associated with pipeline deliveries or LNG trucking are eliminated.

- Transferability: Operating on a combined basis, the Company is able to capitalize on price disparities that occasionally exist between AGT and TGP deliveries. For example, certain points on the Company's distribution system can be fed from either the Tennessee or Algonquin pipeline. If deliveries are less expensive on the Tennessee pipeline, the Company will take the maximum amount of deliveries from the Tennessee pipeline and reduce deliveries from the Algonquin pipeline to the Company's southern citygates.

  Another situation where the Company capitalizes on its transfer capabilities involves the M&N Pipeline in Dracut, Massachusetts. The former Boston Gas system contracted with Maritimes to receive volumes from Sable Island. These volumes were to be transported via the Tennessee pipeline from M&N interconnect in Dracut to Boston's city gate. As a result of the Company's increased bargaining leverage, Tennessee agreed to a substantially reduced, negotiated rate for this transportation service. The Company is now able to take volumes from the M&N Pipeline and deliver those supplies to the Company's citygates on the Tennessee pipeline. The

Company is also able to use its on-system transfer capability to deliver this gas to citygates on the Algonquin pipeline.

- Operational Balancing Agreements: Perhaps the most significant benefit gained by KeySpan in its contract restructuring arrangements with TGP and AGT/TETCO were the operational balancing agreements ("OBAs") negotiated with each pipeline company. As a result of its negotiations, KeySpan now operates within highly flexible operating parameters, which generally allow KeySpan to balance deliveries across the entire system rather than having to adhere to the more restrictive balancing requirements previously imposed on each separate distribution system. This enhances the Company's ability to optimize the dispatch of its resources.

  For example, on a day where one distribution system would have exhausted its pipeline supplies and resorted to the use of underground storage, and another system may not require its full pipeline requirements, the Company is now able to exhaust the total combined pipeline capacity of the portfolio and defer the withdrawal of underground-storage resources.[3] This strategy results in significant cost savings because: (1) it maximizes the use of pipeline capacity, which, because of the high proportion of fixed costs associated with this resource, lowers the cost to all customers; and (2) it enables the Company to conserve underground storage resources for use on colder days. The cost savings associated with these operating parameters benefit all customers on the KeySpan system.

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3 As discussed above, through the use of displacement and the transfer of available supplies, the Company is able to avoid transportation costs that would normally be associated with the transport of supplies among the individual systems.